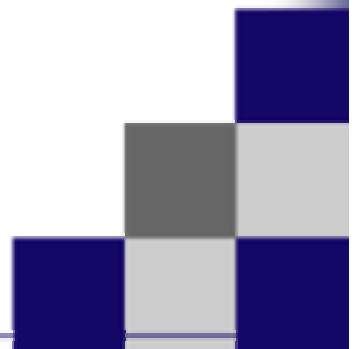




# Appendix 10:

## LETTER FROM THE SANTIAGO COUNTY WATER DISTRICT



**DIRECTORS**

Maryann Brown  
Bruce Newell  
Jim Carter  
Robert C. Hunt  
Steve Kerrigan



**SANTIAGO COUNTY WATER DISTRICT**  
7431 SANTIAGO CANYON ROAD  
P.O. Box 575  
SILVERADO, CA 92676  
(714) 649-2630 Fax (714) 649-2731

GENERAL MANAGER  
John Reddick

GENERAL COUNSEL  
Art Kidman

DISTRICT ENGINEER  
Henry J. Miedema, P.E.

**RECEIVED**  
FEB 14 2005

LOCAL AGENCY FORMATION COMMISSION

February 7, 2005

Ms. Kim Koeppen  
Orange County LAFCO  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701


Dear Ms. <sup>Kim</sup>Koeppen:

This letter is presented as a formal request to have the enclosed letter from Mr. Carl Schoonover, Santiago County Water District's Auditor-Controller, entered into both the official record and LAFCO staff report to the Commission being prepared for the LAFCO East Orange MSR Prototype.

The above mentioned letter details the potential adverse financial impacts to Santiago County Water District if Improvement District Number 1's future residential development is removed from the District without consideration being given to the negative long-term financial impacts.

I look forward to the final MSR Report, and I thank you for your consideration in this regard.

Sincerely,

  
John T. Reddick  
General Manager

cc: SCWD Board of Directors

Enclosure; 1

**DIRECTORS**

Robert C. Hunt  
Bruce Newell  
Maryann Brown  
James Carter  
Steve Kerrigan



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**GENERAL MANAGER**  
John T. Reddick

**GENERAL COUNSEL**  
Art Kidman

**DISTRICT ENGINEER**  
Henry Miedema, P.E.

February 2, 2005

Board of Directors  
Santiago County Water District  
P.O. Box 575  
Silverado, Ca., 92676

This letter is presented to you to convey conclusions derived from several spreadsheet analyses that were prepared for the District in the early part of 2004, projecting the District's revenues and expenditures under various assumptions that would have material effects on the District's financial position and the results of its operations.

Most importantly, the viability of the Santiago County Water District to continue to serve the areas of Improvement District #2 and the customers of Silverado, Modjeska, and Williams Canyons depend heavily on the ability of the District to retain control of the revenues of Improvement District # 1 as development takes place.

Projections show that the Santiago County Water District would be facing a finite timeline of existence without those revenues. It is evident that cancellation of planned capital replacements and improvements to the District's system, combined with unbearable increases in water rates and assessments would be necessary to extend the life of the District's solvency. The District presently experiences net operating losses of approximately \$42,000 per year including provision for capital replacements or improvements of approximately \$140,000. This loss is compensated for by the collection of taxes and assessments on all lands within the Santiago County Water District, including the lands of Improvement District # 1. Furthermore, the tax revenues of the District, including Improvement District # 1 are contractually pledged and honored by the State of California for debt service on the \$1,300,000 loan mentioned below.

Complete detachment of Improvement District # 1 and its associated revenue streams could cause the District's complete insolvency within five to seven years.

The Canyon Areas and Improvement District #2 are burdened with high cost pumped water and debt which substantially benefits Improvement District # 1. Recent capital improvements totaling over \$1,400,000 have been made by the District by incurring debt of \$1,300,000. The debt service on these improvements cause heavy demands on the customers in the Canyon Areas of the District, which currently pay one of the highest water rates in the county because of the inescapable high cost of pumping water to a small number of customers in elevated areas. These improvements, consisting of water treatment facilities for water from the Harding Canyon Reservoir were made so that low cost water can be served to all areas of the District, including Improvement District # 1, utilizing local water supplies and gravity flow to supplement the high cost of imported pumped water.

The residents of the District's canyon areas comprise a unique and active community interested in its water district, and would prefer to retain control of their future water service availability and costs. However, the District can only continue to survive as a viable financial entity if the tax and assessment revenue streams from Improvement District # 1 are not totally removed.

Sincerely,



Carl R. Schoonover  
Auditor / Controller  
SANTIAGO COUNTY WATER DISTRICT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11
<b>STATISTICAL ASSUMPTIONS</b>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Number of services-canyon area	730	740	750	760	770	780	790	800	810	820	830
Number of services-ID # 1	0	0	0	465	775	1,085	1,395	1,550	1,550	1,550	1,550
Annual water demand-Canyon area (AF)	423	429	435	441	447	452	458	464	470	476	481
Annual water demand-ID # 1 (AF)	23	25	183	549	914	1,281	1,646	1,829	1,829	1,829	1,829
Monthly service charge (Average \$/yr.)	\$276	\$280	\$280	\$280	\$290	\$290	\$290	\$300	\$300	\$300	\$300
Projected water rate (\$/ccf)	\$2.50	\$2.60	\$2.76	\$2.95	\$3.13	\$3.28	\$3.41	\$3.52	\$3.59	\$3.66	\$3.73
Projected imported water cost (\$/AF)	\$451	\$469	\$498	\$534	\$570	\$600	\$629	\$647	\$657	\$669	\$681
Projected OCWD water cost (\$/AF)	\$300	\$309	\$318	\$328	\$338	\$348	\$358	\$369	\$380	\$391	\$403
Harding Canyon supply (AF)	80	80	80	80	80	80	80	80	80	80	80
OCWD ground water supply (AF)	0	0	0	0	0	0	988	1,097	1,097	1,097	1,097
Imported water supply (AF)-canyon area	343	349	355	361	367	372	378	384	390	396	401
Imported water supply (AF)-ID # 1	0	0	183	549	914	1,281	659	732	731	731	732
Total water supply-canyon area (AF)	423	429	435	441	447	452	458	464	470	476	481
Total water supply-ID # 1 (AF)	0	0	183	549	914	1,281	1,646	1,829	1,829	1,829	1,829
Assessed valuation-canyon areas	278,768,104	284,343,466	290,030,335	295,830,942	301,747,561	307,782,512	313,938,162	320,216,926	326,621,264	333,153,689	339,816,763
Tax rate-canyon areas	0.00048	0.00049	0.00050	0.00051	0.00052	0.00053	0.00055	0.00056	0.00057	0.00058	0.00059
Assessed valuation-ID # 1	41,509,438	42,339,627	43,186,419	276,550,148	437,081,151	600,822,774	767,839,229	860,696,014	877,909,934	895,468,133	913,377,495
Ad valorem taxes-ID # 1	\$35,000	\$38,000	\$59,000	\$123,000	\$229,000	\$379,000	\$570,000	\$750,000	\$785,000	\$800,000	\$816,000
Tax rate-ID # 1	0.00084	0.00090	0.00137	0.00044	0.00052	0.00063	0.00074	0.00087	0.00089	0.00089	0.00089